

Memorandum

To: Panel Members Date: April 24, 2003

From: Diana Torres, Manager
Peter DeMauro, General Counsel Analyst: J. Davey

Subject: One-Step Agreement for **Kmart Corporation**
(www.kmart.com)

CONTRACTOR:

- Training Project Profile: Retraining: companies with out-of-state competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Services
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 80,061
 - In California: 6,452
- Fringe Benefits: Yes
- Union Representation: Yes
- Name and Local Number of Union representing workers to be Trained: Western States Regional Joint Board Unite
Union of Needletrades, Industrial and Textile Employees,
AFL-CIO, CLC

CONTRACT:

- Program Costs: \$414,718
- Substantial Contribution: \$0
- Total ETP Funding: \$414,718
- In-Kind Contribution: \$424,928
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Riverside, San Bernardino
- Duration of Agreement: 24 months

SUBCONTRACTORS:

NA

THIRD PARTY SERVICES:

Marquis Publishing located at Volente, Texas assisted with the Application, and helped prepare the Training Plan, Curriculum, Retraining Certification, and other agreement requirements. The amount reimbursed for these services is part of a larger, nationwide contract between Marquis Publishing and Kmart's corporate headquarters to provide training consulting services throughout the United States. The specific cost for services in this application are not identified in that contract and are not based on a percentage of the amount in this proposal.

NARRATIVE:

This proposal was developed from a referral from the California Technology, Trade and Commerce Agency.

Kmart Corporation, founded in 1899 by Sebastian S. Kresge, began as a five-and-dime store in downtown Detroit, Michigan. Since that time, Kmart has grown into one of the largest mass merchandising companies that serves the United States with its Kmart and Kmart Super Center retail outlets. Headquartered in Troy, Michigan, Kmart has over 80,000 employees worldwide, with 6,452 employees in California. The proposed training will be conducted at Kmart's Regional Service Center in Mira Loma and its Regional Distribution Center in Ontario.

Title 22, California Code of Regulations, Section 4416 (a)(3,4), Out-of-State Competition, states in part that "a company is deemed to meet the out-of-state competition requirement for purposes of Panel funding if that company provides a service out-of-state." Kmart Corporation's Mira Loma and Ontario service centers provide integrated order processing, distribution, and related internal services to its store locations, both inside and outside of California. Therefore, Kmart Corporation's Mira Loma and Ontario service centers meet the definition of having out-of-state competition.

Company representatives state that increased pressure from its competitors, such as Wal-Mart, has decreased overall demand for its products. The competitive pressures brought the company to its lowest point last year when it filed for Chapter 11 bankruptcy protection and consolidated its operations by closing 323 retail stores throughout the United States, 19 in California. Since that time, Kmart has re-examined its performance on every level of its organization and recognized that, in order to regain lost business and become solvent, it must improve its way of doing business.

As part of its re-organization plan to emerge from Chapter 11 protection, the company has identified training in key areas of its business as vital to turning the company around and refocusing its business for future success. In May 2002, Kmart conducted a survey at each distribution center, established focus groups, and received corporate direction to develop a training plan. The results of these efforts showed the need for Warehouse Workers, Maintenance Personnel, Managers, Supervisors, and Asset Protection Personnel to receive training in Computer Skills, Continuous Improvement, Management Skills, and Manufacturing Skills. Kmart expects the training to provide a better educated, more productive, and more

NARRATIVE: (continued)

committed workforce. The training will also address areas of the business that showed large revenue losses, namely shrinkage of inventory and asset protection.

Continuous Improvement Skills: Kmart has recognized one of its main weaknesses to be in the area of "Shrink" (Inventory or Product Shrinkage). Shrink is the loss of inventory due to errors in the shipping and receiving process. When large quantities of products are incorrectly tracked during shipping and/or receiving, the cost to the company can be enormous. Kmart's representatives state that it has underperformed relative to its industry in Shrink, and because Shrink is directly related to profits, they plan to devote significant training resources to this subject. Continuous Improvement Skills for all 678 trainees will address this problem and are expected to reduce these costs. Everyone in the training plan will receive between 18 to 50 hours in Shrink training and Operations Development. Shrink training is designed to improve the quality and accuracy of cost and inventory control methods. Operations Development Training will identify best practices and improved standards and methodologies in the warehousing process to improve efficiency in receiving, order filling, and shipping. In addition, 2 Asset Protection Personnel will receive 28 hours of Class/lab training in procedures to investigate asset losses and conduct asset audits.

Manufacturing Skills: Kmart will provide trainees in Job Numbers 1 and 4 Manufacturing Skills training that will be divided into two separate tracks: Warehouse Workers in Job Number 1 will receive training in Warehouse Skills and Job Number 4 trainees will receive cross-training in several skilled trades, including Mechanical, Fork Lift Operation, and Conveyor Systems. The Warehouse Workers will receive training in Warehouse Skills that consist of Reviewing Job Methods to identify and analyze their current job tasks. Next they will receive training in Observations and Logistics Performance Processing. The first phase of this training was conducted last year and was an introductory stage in which select supervisory participants helped to define what the areas of performance should be and devise Reasonable Expectations (REs) for each area. Having identified more specific goals and job methods to focus upon, the training will consist of observation and training sessions for Warehouse Workers to assess retrainee performance, provide direction for improving warehouse methods, and provide positive feedback for correct performance. Warehouse Workers will receive mentoring in each job function to help them reach the RE for that task and become more involved in checking their everyday notes. Kmart expects retrainees to become more proficient in self-reporting.

Management Skills: Managers and Supervisors (Job Numbers 2 and 3) will receive training in Leadership, Team Building, Coaching, Communication, and Conflict Resolution so they can better facilitate company goals. Retraining are expected to acquire the skills and knowledge to build positive relationships and create a true team approach to work processes. In addition, Managers and Supervisors will receive training in Operations Development to adopt and convey best practices for shipping and receiving procedures.

Computer Skills: In addition to the above skills, Supervisors in Job Number 2 will also receive 12 hours of Computer Based Training (CBT) in Computer Skills in the following areas: Excel, PowerPoint, Word, Outlook, Project, Database Management Systems, and Structured Query Language (SQL). Training in these areas will help them to better understand and utilize computer software to improve their job performance in tracking inventory, shipping and receiving data.

As evidenced by Kmart's financial situation, without the implementation of this training, Kmart feels that it will not reach the level of productivity required to be competitive and excel in the retail market. The training in this proposal has been developed at both the corporate and local levels of the company and is customized to the specific needs of the Mira Loma and Ontario service centers. As Kmart emerges from Chapter 11 protection, Kmart has determined that the proposed training is vital for its distribution and

NARRATIVE: (continued)

service network to function as efficiently as possible, and develop its facility into a High Performance Workplace. With ETP funding, Kmart is confident that it can reverse direction and become a viable company in the California marketplace and maintain long-term employment opportunities for its employees.

Western States Regional Joint Board Unit, Union of Needle Trades, Industrial and Textile Employees, AFL-CIO, CLC has submitted a letter of support for this proposed training. One hundred thirty warehouse workers at the Mira Loma Service center are represented.

Supplemental Nature of Training

Kmart is emerging from a precarious financial situation and needs to provide training to workers to meet its current needs, but lacks the financial resources to do so. During the past year, Kmart has developed customized training, based on the need to emerge from Chapter 11 bankruptcy protection and regain its share of the retail market. Previous training at the Mira Loma and Ontario distribution centers was done on an as-needed basis and consisted of OSHA, Safety, Leadership and New Hire Orientation training. The Leadership skills delivered in the past are substantially different from past training, because the skills presented in this proposal are connected to overall company goals and team building, rather than strictly personal development training. In addition, training at the two centers has never been formalized in the past and was not addressed to meeting the goals of the organization as a whole.

The proposed ETP-funded training will include all workers and will include training that has not been offered in past years. Without ETP funds, the company will not be able to provide the required level of training to all employees. After the ETP-funded training concludes, Kmart plans to continue training by building upon the proposed training in this proposal.

In-Kind Contribution

The estimated wages of employees paid during training will be approximately \$424,928.

COMMENTS:

Frontline Workers

Six hundred two (602) retrainees in this proposal are frontline workers, as defined under Title 22, California Code of Regulations, section 4400(ee). The remaining 76 retrainees in this proposal are identified as Managers and Supervisors and represent 11% of the trainees.

Turnover Rate

Title 22, California Code of Regulations, Section 4417(a), Secure Job, states in part: "The Panel shall fund training for employment that is stable. The employer's turnover rate shall not exceed 20% annually for the company facility where training is being requested. The Panel may accept a higher turnover rate if the employer provides evidence that the proposed training will significantly decrease the turnover rate, or the employer has experienced a singular reduction in force or other occurrence, which adversely affected the turnover rate in the last calendar year . . ." Kmart reports that its turnover rate for 2002 was 25.2 percent and that this high turnover rate was a one-time anomaly. Therefore, the company requests a

COMMENTS: (continued)

waiver to the above regulation and states that the higher turnover rate was due to two factors: 1.) Mira Loma facility opened in late 2001 and had difficulty in establishing a stable personnel base, and 2.) Chapter 11 bankruptcy filing in early 2002 caused a loss of personnel from both locations due to concerns about future employment with the company. Company representatives state that the reorganization of the company, the emergence from Chapter 11 protection projected at the end of April 2003, and improved skill levels provided in this proposal will ultimately enhance employee retention and reduce turnover.

Kmart is confident that it will reduce the combined turnover at the two facilities to below 20% during the final year of the agreement. The Agreement contains language requiring Kmart to achieve a turnover rate of 20 percent or less during the final 12 months of the Agreement in order to earn the final 25 percent payment.

PROPOSED ACTION:

Staff recommends that the Panel approve the One-Step Agreement and the turnover waiver request, if funding is available, based on the stated need of Kmart Corporation to retrain its workers. The company states that the training outlined in this proposal will provide employees with the skills needed to reduce shrinkage, and to improve communication, productivity, and efficiency while moving toward a high performance work environment and regaining market share.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Retraitees							
Job Number 1 & 4	Continuous Improvement Skills Manufacturing Skills	600	40 – 44	0	0	\$520 - \$572	*\$12.80 - \$17.75
Job Number 2	Continuous Improvement Skills Computer Skills Management Skills	34	48	12-16	0	\$848	\$15.89 - \$21.15
Job Number 3	Continuous Improvement Skills, Management Skills,	42	68	16	0	\$1,012	\$18.72 - \$42.17
Job Number 5	Continuous Improvement Skills	2	82	0	0	\$1,066	*\$12.80 - \$14.25
					<u>Range of Hourly Wages</u> *\$12.80 - \$42.17		
					<u>Prevalent Hourly Wage</u> \$16.10		
					<u>Average Cost per Trainee</u> \$611		
<u>Health Benefit used to meet ETP minimum wage:</u> * Health benefits of at least \$2.80 per hour will be added to the base wage (\$10.00 per hour) to meet the ETP minimum hourly rate of \$10.98 per hour for Riverside and San Bernardino Counties.					<u>Turnover Rate</u> 25.2%	<u>% of Mgrs & Supervisors to be trained:</u> 11%	

CURRICULUM

Class/Lab Hours	MANUFACTURING SKILLS
Job 1 = 26 Job 4 = 34	<u>Warehouse Skills:</u> <ul style="list-style-type: none">• Review Job Methods – Standards of Excellence• Observations and Logistics Performance Process (LLP)• Warehouse Management - Warehouse Management Systems• Product Transport and Placement Methods• Heavy Lifting Techniques• Safe Forklift Operations <u>Maintenance Skills:</u> <ul style="list-style-type: none">• Electrical (general)• Mechanical (general)• Forklift Operation and Repair• Conveyors and Sorting Systems
	CONTINUOUS IMPROVEMENT SKILLS
Job 1 = 18 Job 2 = 32 Job 3 = 50 Job 4 = 5 Job 5 = 18	<u>Shrink:</u> <ul style="list-style-type: none">• Defining Shrink Issues• Identification of Errors• Cost of Errors• Quality Inventory Methods• Minimizing Errors <u>Operations Development:</u> <ul style="list-style-type: none">• Best Practices• Shipping• Order Fill• Receiving
Job 5 = 36	<u>Asset Protection:</u> <ul style="list-style-type: none">• Investigations• Audits

Class/Lab Hours

Job 2 = 16

Job 3 = 18

MANAGEMENT SKILLS

Leadership:

- Expected Management Behaviors and Communication
- Coaching and Follow-Through
- Conflict and Perspective
- Teaming and Change

CBT Hours:

Job 2 = 16

Job 3 = 16

Leadership: Same Topics as above

CBT Hours:

Job 2 = 12

COMPUTER SKILLS

- MS Excel
- MS PowerPoint
- MS Word
- MS Outlook
- MS Project
- Database Management Systems
- Structured Query Language (SQL)